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SUBJECT: AMENDMENTS TO LATVIA'S STATE BUDGET

Ref: Riga 405

¶1. On July 17, the Saeima (Parliament) passed amendments to the Law on the State Budget. The amendments were introduced in response to decreasing budget revenues (in June, budget expenditures exceeded revenues by \$238 million USD), and projections that a 1% of GDP surplus is unlikely to be achieved by the end of the year as planned. The amended budget sets a less ambitious surplus goal of 0.05% of GDP, which amounts to \$18 million USD. Planned revenues and expenditures were set at \$11.680 billion USD and \$11.698 billion USD, respectively, and the total budget cut equals \$522 million USD. The reduction in spending was accomplished by taking unfilled vacancies off the payroll budget, reducing non-essential government purchases and, mostly, by removing funding for various projects, particularly EU co-funded items, that will no longer be carried out this year. As previously reported, Latvia also decided not to pursue participation in the Strategic Airlift Consortium to save money (reftel).

¶2. The budget changes have not produced much reaction from the economic community. Peteris Strautins, the Chief Socioeconomic Expert at Hansabanka, called the amendments a reasonable compromise, given the dichotomy between the government's earlier, widely-announced commitment to a surplus budget and the necessity to stimulate the sluggish economy. Strautins doubts the budget will actually result in a surplus by the end of the year due to the rapidly falling economic growth, which would likely disappoint the major credit rating agencies who have strongly advocated a surplus budget to combat inflationary pressures.